

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:**

**APPLICATION OF NEARBURG EXPLORATION
COMPANY, L.L.C. FOR TWO NON-STANDARD
GAS SPACING AND PRORATION UNITS,
LEA COUNTY, NEW MEXICO.**

CASE NO. 12622 (De Novo)

**IN THE MATTER OF THE APPLICATION OF
THE OIL CONSERVATION DIVISION FOR
AN ORDER CREATING, CONTRACTION,
RE-DESIGNATING, AND EXTENDING THE
VERTICAL AND HORIZONTAL LIMITS OF
CERTAIN POOLS IN LEA COUNTY,
NEW MEXICO.**

CASE 12908-A (Severed and Reopened)

**PRE-HEARING STATEMENT
OF NEARBURG EXPLORATION COMPANY, L.L.C., CL&F
RESOURCES, LP AND GREAT WESTERN DRILLING
COMPANY**

This Prehearing Statement is submitted by Holland & Hart LLP as required by Oil Conservation Division Rule 1208.B.

APPEARANCES OF PARTIES

APPLICANTS

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Great Western Drilling Company
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OPPOSITION OR OTHER PARTIES

Redrock Operating Ltd. Co.

Raptor Natural Pipeline LLC

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STATEMENT OF CASE

APPLICANT:

LAND TESTIMONY:

In December 1999, the State of New Mexico offered for lease the N/2 of Section 34, Township 21 South, Range 34 East, NMPM, Lea County, New Mexico. This oil and gas lease was offered without stipulation by the state. Great Western Drilling Company was the successful bidder for the lease and in March 2000 sold a portion of the working interest in this tract to Nearburg Exploration Company, L.L.C., CL&F Resources, LP, and Great Western Drilling Company (Great Western Drilling Company, CL&F Resources, LP, and Nearburg Exploration Company, L.L.C are hereinafter collectively referred to as "Nearburg").

The Oil Conservation Division approved Nearburg's Application for Permit to Drill and Form C-102 which dedicated the N/2 of Section 34 to its proposed Grama Ridge "34" State Well No. 1 ("the Well"). Nearburg drilled the Well in March and April, 2000. When the Well was at a depth of 12,800, LG&E notified Nearburg that it was drilling in its Grama Ridge Morrow Gas Storage Unit. LG&E is the predecessor to Raptor Natural Pipeline, L.L.C. ("Raptor"). All data on the well was reviewed by Raptor and Raptor agrees that based on that data, the Well is not communicated with the gas storage unit Morrow intervals within the unit boundaries. The well was completed as a successful Morrow gas well in June 2000.

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In July 2000, Nearburg was notified by the OCD that in 1979 Section 34 had been separated into two pools and therefore the N/2 of the section could not be used as a spacing unit for the Well.

In December 2000, Nearburg filed an administrative application seeking the creation of two non-standard 160-acre spacing units in the E/2 of Section 34. Redrock owns royalty interest in the SE/4 of this section and objected to the application. The application was set for hearing before a Division Examiner in June and July 2001. At the July hearing the well was ordered shut in until this matter was resolved.

By Order No. R-11768, dated May 22, 2002, the Division denied the application of Nearburg for two non-standard spacing units in the E/2 of Section 34 but found that "All past and any future Morrow gas production from the Nearburg Grama Ridge East "34" State Well No. 1... should be allocated to either : (1) the N/2 of Section 34, being a standard 320-acre lay-down gas spacing unit, in either the East Grama Ridge-Morrow Gas Pool or the Grama Ridge-Morrow Gas Pool, depending on the necessary adjustment to the pool boundaries to be sought through the Division's nomenclature process; or (2) the E/2 of Section 34, being a standard 320-acre stand-up gas spacing unit in the east Grama Ridge-Morrow Gas Pool." (Finding 13) Nearburg appealed this order to the Commission for de novo review. At the request of Raptor the hearing on this appeal was continued from the July Commission hearing.

Paragraphs (bb) and (cc) of Division Nomenclature Case No. 12908, which was heard on August 1, 2002, proposed the contraction of the East Grama Ridge-Morrow Gas Pool to exclude the E/2 of Section 34 and the concomitant extension of the Grama Ridge-Morrow Gas Pool to include this acreage. The parties agree that this change in pool boundary affects the issues in Case 12622 and Redrock and Nearburg agreed that these paragraphs should be set for hearing and consolidated with the de novo appeal of Order No. R-11768.

GEOLOGY:

Nearburg will present geological evidence that will show that the 225 foot fault which was the basis for the 1979 separation of Section 34 into two pools does not exist and therefore that the decision to separate Section 34 into two pools is wrong. Nearburg will refute the existence of this fault with maps of the same horizon as that mapped in 1979 which show that data from wells in Section 34 shows that this fault could not be as mapped. Nearburg will also present seismic and reservoir pressure data which confirm the well data and establishes the absence of this fault.

Nearburg will also present geological evidence which shows that the reserves which have been produced from the Grama Ridge "34" State Well No. 1 are from the Morrow "B" GRE Sand which is a separate Morrow sand from the gas storage unit. Nearburg's geological evidence will also show that these reserves are found in a Morrow sand which is present across the N/2 of Section 34 and but which is absent and in the SE/4 of the Section and does not contribute reserves to the Nearburg Well.

ENGINEERING:

Nearburg's engineering evidence will include gas storage pressures vs. time and Nearburg's drainage study for the Well. This evidence shows that the Well produces from a separate Morrow Sand -- not the gas storage project

Based on this evidence, Nearburg seeks the adjustment of the pool boundaries to include all of Section 34, Township 21 South, Range 34 East, NMPM, in the Grama Ridge-Morrow Gas Pool or, if the pool boundaries are not adjusted. Nearburg seeks an exception to the spacing provisions of Division Rule 104.C(2) to create two non-standard 160-acre gas spacing and proration units within the East Grama Ridge-Morrow Gas Pool with the NE/4 of Section 34, Township 21 South, Range 34 East, to be dedicated to the Nearburg Producing Company's existing Grama Ridge East "34" State Well No. 1 (API No. 30-025-34948), located at a standard gas well location 1548 feet from the North line and 990 feet from the East line (Unit H) of Section 34

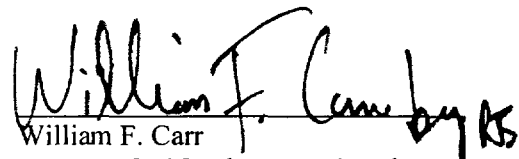
PROPOSED EVIDENCE

APPLICANT

WITNESSES	EST. TIME	EXHIBITS
Bob Shelton and/or Mike Heathington (Land)	Approx. 30 Minutes	Approx. 3
James E. Brown	Approx. 10 Minutes	-0-
Dean A. Horning and/or Ricky Cox (Geology)	Approx. 40 Minutes	Approx. 16
George Friesen (Pet. Engineer)	Approx. 20 Minutes	Approx. 2

PROCEDURAL MATTERS

Nearburg Exploration Company, L.L.C. and Redrock Operating LTD, Co. have filed a joint motion requesting that these cases be consolidated for the purposes of hearing.


William F. Carr
Attorney for Nearburg Exploration Company,
L.L.C.

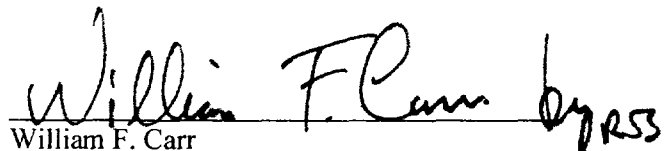
CERTIFICATE OF SERVICE

I hereby certify that on this 4th day of September, 2002, I have caused a copy of the Pre-Hearing Statement and Exhibits of Nearburg Exploration Company, L.L.C. and Great Western Drilling Company to be hand delivered following counsel of record.

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